



Qualcomm Inc (QCOM)

Updated August 3rd, 2023 by Nate Parsh

Key Metrics

Current Price:	\$119	5 Year CAGR Estimate:	11.6%	Market Cap:	\$132 B
Fair Value Price:	\$133	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	08/30/23
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	09/21/23
Dividend Yield:	2.7%	5 Year Price Target	\$186	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

“Quality Communications” was started in the living room of Dr. Irwin Jacobs in 1985. The company’s first product and service was a satellite used by long-haul trucking companies that could locate and message drivers. Qualcomm, as it is known today, develops and sells integrated circuits for use in voice and data communications. The chip maker receives royalty payments for its patents used in devices that are on 3G, 4G, and 5G networks. Qualcomm has a current market capitalization of \$132 billion and has annual sales of ~\$38 billion.

On April 12th, 2023, Qualcomm increased its quarterly dividend 6.7% to \$0.80, marking the company’s 21st consecutive year of dividend growth.

On August 2nd, 2023, Qualcomm announced results for the third quarter of fiscal year 2023 for the period ending June 25th, 2023. For the quarter, revenue fell nearly 23% to \$8.44 billion and missed estimates by \$70 million. Adjusted earnings-per-share of \$1.87 compared unfavorably to \$2.96 in the previous year, but was \$0.06 more than expected.

For the quarter, revenues for Qualcomm CDMA Technologies, or QCT, declined 24% to \$7.17 billion. Automotive grew 13% to \$434 million while Handsets decreased 25% to \$5.26 billion and Internet of Things was down 24% to \$1.49 billion. Qualcomm Technology Licensing, or QTL, fell 19% to \$1.23 billion. Qualcomm repurchased four million shares at an average price of \$100 during the period. Shares fell more than 8% following the earnings release.

Guidance for the fourth quarter was set at a range of \$1.80 to \$2.00, compared to consensus estimates of \$1.94. Qualcomm is projected to earn \$8.30 per share in fiscal 2023, compared to \$8.27, \$9.31, and \$10.23 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	\$4.19	\$8.54	\$12.53	\$8.30	\$11.64
DPS	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	\$2.60	\$2.72	\$2.86	\$3.20	\$4.49
Shares¹	1685	1669	1524	1476	1474	1470	1470	1130	1114	1113	1124	1050

Qualcomm’s earnings-per-share declined almost 16% during the last recession. The company has grown earnings-per-share at a rate of 6.6% per year over the last decade. An agreement with Apple and Huawei, a lower share count, and leadership in 5G should allow the company to grow in the coming years. We also believe that demand for 3G/4G/5G headsets will increase following a recovery from the COVID-19 pandemic. We reaffirm our earnings-per-share growth rate of 7% through fiscal year 2028. Applying the expected growth rate to our guidance for fiscal 2023, Qualcomm could earn \$11.64 by fiscal year 2028.

¹ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.2	14.3	14.5	12.1	13.7	16.6	18.6	21.0	15.1	9.7	14.3	16.0
Avg. Yld.	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.8%	2.9%	2.1%	2.4%	2.7%	2.4%

Shares of Qualcomm have increased \$15, or 14.4%, since our February 7th, 2023 report. Based off the earnings forecast for fiscal 2023, the stock trades with a price-to-earnings ratio of 14.3. Qualcomm's stock had an average price-to-earnings ratio of 15 for the last decade, but we feel that 16 times earnings is an appropriate valuation target given recent results and tailwinds from 5G. If the stock were to revert to our new P/E target by fiscal 2028, valuation would be a 2.2% tailwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

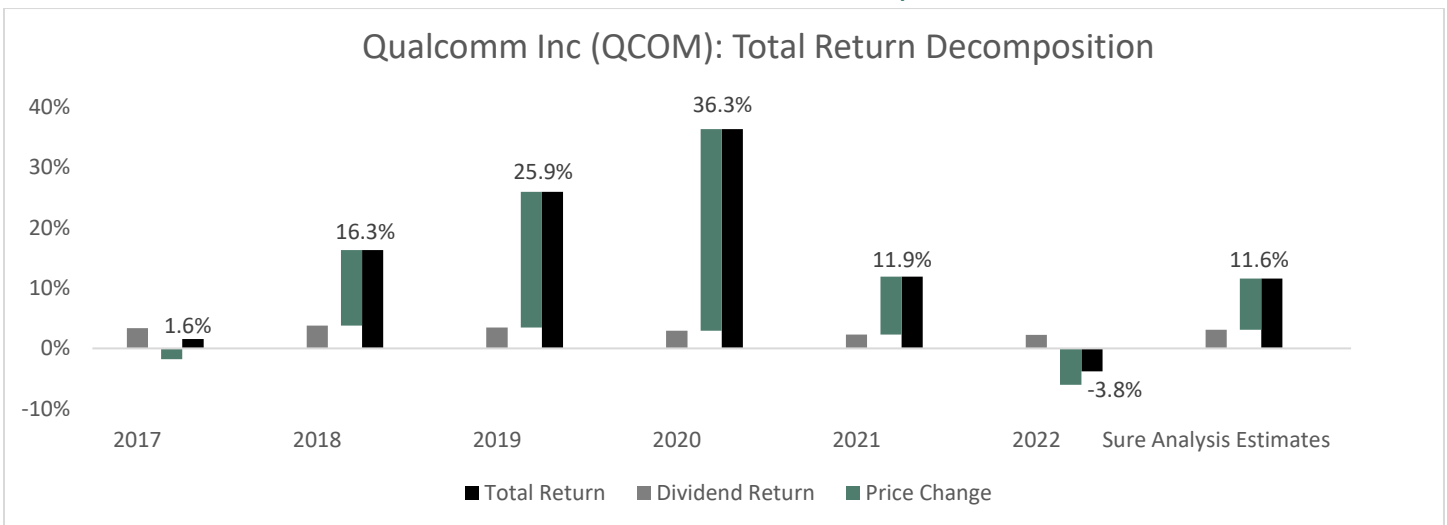
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	29%	39%	46%	51%	67%	69%	62%	32%	23%	39%	39%

Qualcomm earnings declined during the last recession and would likely do so in the event of the next one. While handheld devices have become a necessity amongst consumers, the company would likely see a decline in earnings-per-share due to their high costs. The components that Qualcomm produces are considered to be the best available, so phone makers will likely continue using the company's products in future iterations of their devices. This is especially true as 5G launches continue to occur.

Final Thoughts & Recommendation

Following third quarter results, Qualcomm is projected to return 11.6% annually through fiscal 2028, down from 14.6% previously. Our expected return stems from a 7% earnings growth rate, a starting yield of 2.7%, and a low single-digit contribution from multiple expansion. Qualcomm experienced tremendous growth in the prior fiscal year and expectations are for a retraction from those levels as comparative handset weakness is impacting results. The company did provide guidance that was below expectations for the fourth quarter, which led to a steep decline in the stock. However, shares still offer a double-digit total return. We reaffirm our five-year price target of \$186 due to earnings estimates for the fiscal year. We continue to rate shares of Qualcomm as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	24866	26487	25281	23554	22258	22611	24273	23531	33566	44,200
Gross Profit	15046	15801	14903	13805	12466	12367	15674	14276	19304	25,565
Gross Margin	60.5%	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%	60.7%	57.5%	57.8%
SG&A Exp.	2518	2290	2344	2385	2658	2986	2195	2074	2,339	2,570
D&A Exp.	1017	1150	1214	1428	1461	1561	1401	1393	1,582	1,762
Operating Profit	7230	7550	5776	6495	2581	621	7667	6255	9,789	15,860
Op. Margin	29.1%	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%	26.6%	29.2%	35.9%
Net Profit	6853	7967	5271	5705	2445	-4964	4386	5198	9,043	12,936
Net Margin	27.6%	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%	22.1%	26.9%	29.3%
Free Cash Flow	7730	7702	4512	7093	4311	3124	6399	4407	8,648	6,834
Income Tax	1349	1244	1219	1131	543	5356	3095	521	1,231	2,012

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	45516	48574	50796	52359	65486	32718	32957	35594	41240	49,014
Cash & Equivalents	6142	7907	7560	5946	35029	11777	11839	6707	7,116	2,773
Acc. Receivable	2066	2362	1941	2194	3576	2667	1046	2687	2,214	4,175
Inventories	1302	1458	1492	1556	2035	1693	1400	2598	3,228	6,341
Goodwill & Int.	6529	7068	9221	9179	10360	9453	8454	7976	8,704	12,390
Total Liabilities	9429	9408	19382	20591	34740	31911	28048	29517	31,290	31,001
Accounts Payable	1554	2183	1300	1858	1971	1825	1368	2248	2,750	3,796
Long-Term Debt	0	0	10969	11757	21893	16370	15933	15726	15745	15,482
Total Equity	36088	39169	31421	31778	30746	807	4909	6077	9,950	18,013
LTD/E Ratio	0.00	0.00	0.35	0.37	0.71	20.29	3.25	2.59	1.58	0.86

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	15.5%	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%	15.2%	23.5%	28.7%
Return on Equity	19.7%	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%	94.6%	112.8%	92.5%
ROIC	19.7%	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%	24.4%	38.1%	43.7%
Shares Out.	1685	1669	1524	1476	1474	1470	1470	1130	1114	1113
Revenue/Share	14.18	15.45	15.42	15.72	14.94	15.46	19.90	20.48	29.21	38.87
FCF/Share	4.41	4.49	2.75	4.74	2.89	2.14	5.25	3.84	7.53	6.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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